MASTER
NEGATIVE
NO. 95-82473-8

Author:
International Acceptance Bank, New York

Title:
Acceptance financing and the international...

Place:
New YOrk

Date:
[1923]

95-82473-8
MASTER NEGATIVE #

COLUMBIA UNIVERSITY LIBRARIES
PRESERVATION DIVISION

BIBLIOGRAPHIC MICROFORM TARGET

ORIGINAL MATERIAL AS FILMED - EXISTING BIBLIOGRAPHIC RECORD

International acceptance bank, inc., *New York.*

Acceptance financing and the International acceptance bank, inc. New York [International acceptance bank, inc., ©1923]

3 p. l., 9-75, [4] p. 23cm.

1. Acceptances. I. Title.

Library of Congress HG1655.I6 23-5480
Copyright A 699896 [2]

RESTRICTIONS ON USE:

TECHNICAL MICROFORM DATA

FILM SIZE: 35mm REDUCTION RATIO: 12x IMAGE PLACEMENT: IA IIA IB IIB

DATE FILMED: 4-18-95 INITIALS: WW

TRACKING # : MSH 06191

FILMED BY PRESERVATION RESOURCES, BETHLEHEM, PA.

2.0 mm ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz1234567890

1.5 mm ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz1234567890

PM-MGP 13″x18″
METRIC GENERAL PURPOSE TARGET
PHOTOGRAPHIC

200 mm

150 mm

100 mm

A4

A5

1.0 mm ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz1234567890

1.5 mm ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz1234567890

2.0 mm ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz
1234567890

2.5 mm ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz
1234567890

PRECISION℠ RESOLUTION TARGETS

Century

A&P

1303 Geneva Avenue
St. Paul, MN 55119

4.5 mm ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz
1234567890

3.5 mm ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz1234567890

Acceptance Financing
and the
International Acceptance Bank
INCORPORATED

THIRTY-ONE PINE STREET

NEW YORK

Acceptance Financing
and the
International Acceptance Bank, Inc.

THIRTY-ONE PINE STREET
NEW YORK

Introduction

DURING recent years much has been written on the subject of foreign financing in general, and of the use of the acceptance in particular. There have been published by the American Acceptance Council and by various banks a considerable number of articles and pamphlets dealing with various phases of the matter; and several admirable compilations have been made of laws, regulations, and customs governing the creation of acceptances by American banks. It is not the purpose of this booklet to provide a guide for the initiated; it is not in any sense intended to be a technical treatise. For this reason it contains no appendix in which may be found the usual excerpts from sundry laws and regulations. Its object is rather to present the problems of foreign trade financing in such a way that the lay mind will see them, not as thorny theorems of academic discussion, but as everyday matters, which they really are.

In a sense the chapters which follow are an attempt also to answer, cumulatively and generically, some of the vast number of specific questions, which are constantly presenting themselves in the daily course of business. Furthermore, it is our aim to demonstrate the far-reaching applicability of the use of acceptance financing, which, though old in Europe, is still in its infancy here. And finally,—to confess frankly our ulterior motive,—it is our hope that the ensuing pages may give rise to the thought on the part of the reader that there may be some way in which the service of the International Acceptance Bank can meet his particular need.

The following list of chapter headings will serve to show the order in which the different subjects will briefly be touched upon. Part One contains a cursory sketch of the origin and development of the discount market in America. Part Two sets forth the different varieties of acceptance financing, and attempts to show how they are adapted to the needs of some of our major industries. Part Three is concerned with the relationship between customer and bank, the analysis of risk, and a few technical features. And finally, Part Four is devoted to a short statement of the facilities offered by the International Acceptance Bank.

JAMES P. WARBURG
Vice-President

New York City
Jan. 15, 1923

CONTENTS

PART ONE

The Acceptance in the United States

PART TWO

Various Forms and Uses of Acceptance Financing

PART THREE

The Relation of the Customer to the Bank

PART FOUR

The International Acceptance Bank, Inc.

CHAPTER ONE

The Origin of the Acceptance

THE story of the gradual erection of the present-day credit structure upon the original bedrock of barter has been told so often and so fully, that we need not concern ourselves with it here. Every one, no matter how remotely he is connected with business, is familiar at least in a general way, with the history of the use of the precious metals as a medium of exchange, and the subsequent evolution of credit, based upon the confidence of one man in the ability of another to pay in terms of the accepted medium. Every one knows that the establishment of general confidence in the ability of a government to redeem the accepted medium in gold or silver,—whatever its standard may be,—is the corner-stone of the entire credit structure. The acceptance of token money in lieu of actual metal rests on this confidence, and so does in turn the substitution for token money of checks and promises to pay, whether long or short, whether corporate or individual.

What we are here primarily concerned with is the use of one particular kind of a promise to pay, namely, the banker's acceptance; but, inasmuch as this instrument developed out of what is known as the trade acceptance, we must first briefly consider the essential characteristics of the latter. The trade acceptance is the obligation of a purchaser to a seller for a specific sum owed for certain goods or services, and this obligation is expressed in the form of a draft drawn by the seller on the purchaser and accepted by the latter for payment at its maturity. The fundamental feature is not simply that the acceptance

The Trade Acceptance

is two-name paper; a note of hand bearing an accommodation endorsement is two-name paper, but it is a vastly different instrument from the acceptance. The endorsed note is simply the promise of one man to pay, fortified by the guarantee of another; the trade acceptance represents an account receivable for merchandise or service rendered, in negotiable form.

Open Account Sale

If Jones sells Smith a cargo of wheat, for $50,000. payable in thirty days, and carries this transaction as an open book account, he thereby ties up his $50,000. for one month. At the end of that time Smith may argue that the wheat was bad, or not the kind he ordered, and refuse to pay. In order to carry on his business pending the settlement of this dispute, Jones may have to borrow some money, and, not having sufficient credit with the bank, he may induce some friend of means to endorse his note for him.

Versus Trade Acceptance

If, on the other hand, Jones ships his wheat to Smith, and draws a thirty days draft on him for $50,000, with instructions to his bank to release the wheat to Smith only after the latter has signed his name across the face of the draft, all this trouble would be avoided. In the first place, the seller would immediately have an instrument upon which he could realize by selling it to his bank or in the market; and second, the purchaser would have to pay at maturity and claim his adjustment afterwards, unless he desired to become involved in legal proceedings for default.

Origin

The exact origin of the trade acceptance is not known, but obviously it was nothing more than a common-sense development out of the ordinary requirements of business. Similarly, the evolution from the trade acceptance, where seller draws on purchaser, to the banker's acceptance, where the purchaser provides the seller with a bank upon which to draw, is nothing more than a further development of the original thought. For, to revert to our friends, Smith and Jones, if Jones knew

that Smith also lacked capital, and that the bank would not lend on Smith's acceptance of his draft, he would refuse to sell Smith, unless the latter could provide other means of payment.

Evolution of the Bank Acceptance

It is then not hard to conceive of Smith's going to his own bank and possibly prevailing upon it, because it had known him for a long time as an honest merchant, to lend its credit to the transaction. If the bank agreed to accept Jones' draft on behalf of Smith, Jones would be satisfied. The bank might then protect itself by holding the wheat until Smith could sell it and pay in the proceeds some time during the thirty day period, and of course it would charge Smith for the accommodation. Thus we can easily imagine the evolution of the first banker's acceptance.

Use in Other Countries

Various circumstances have made for different developments in the use of the bank and trade acceptance in various countries. In England the bank acceptance has reached its highest development as a means of financing foreign business, while the trade acceptance has remained in vogue chiefly for domestic transactions. In various Continental countries both trade and bank acceptances are employed, the extensive use of the trade acceptance being particularly noteworthy in France. In Canada, likewise, the trade acceptance has entirely supplanted the single name note, and bank acceptances are rarely used, except for foreign business. Both forms are used in Germany, where the bank acceptance plays a particularly important part in the financing of the industries.

The development of the credit structure in the various countries of Europe is an engrossing subject, but it is unfortunately one which cannot even superficially be touched upon in a few paragraphs. Nor is it possible adequately to do what we shall nevertheless attempt in the next chapter, namely to present a condensed picture of what has happened and is happening in our own country.

CHAPTER TWO

The American Credit Structure

Early Use of Acceptance

ORIGINALLY, when this country was a British colony, and later, during the first half century of its independence, the credit structure was closely modelled on that of England. The trade acceptance was in common use as the means by which the interchange of goods was financed. Such bills of exchange were bought by the banks, and the latter were also in the habit of extending accommodation against the hypothecation of merchandise.

Civil War

During, and immediately after the Civil War, the entire economic life of the country became completely demoralized. Even in the victorious North the basis of the credit structure,—mutual confidence in the ability of the other man to meet his obligations,—was badly damaged. In the South, not only was the entire structure destroyed, but its very foundations were washed away; for, not only had confidence been utterly shaken, but money as a medium of exchange had temporarily disappeared.

The Premium on Cash

It is only natural that under such circumstances of complete disintegration a high premium should be paid by the seller of goods for the immediate procurance of cash. This situation brought about the practice of giving cash discounts on sales, which has continued down to the present day, long after the need for it has passed. It is obvious that the offer of a 10% discount for cash as against payment on the customary trade terms of thirty, sixty, or ninety days, leads to a system of commercial financing in which the trade acceptance plays no part. A further consequence of this development is that the seller, upon whom falls the burden of financing the transaction, will have to find some other way of borrowing funds than by sale of his accounts receivable in negotiable form, which in turn will lead to the practice of borrowing on single name notes.

The National Bank Act

Under the National Bank Act of 1864, banks holding a national charter were given no power to accept, and furthermore these banks were by the Comptroller's office strictly prohibited from allowing overdrafts. This piece of legislation, together with the post-war situation above-outlined, the total lack of a discount market controlled by a rediscounting central bank, and the decentralization of note issues and reserves, led, more than anything else, to the development of the American credit structure, along lines differing so radically from European custom.

European Overdraft

In Europe it had become an old-established principle, that if a man was entitled to borrow on his single name, he did so by using a blank finance credit, or by overdrawing his account with his bank up to a certain limited amount. In no case was such single name borrowing done in the open market, the use of the latter being entirely confined to bank or trade acceptances.

American Single-name Notes

Here, on the other hand, by reason of the fact that trade acceptances no longer commanded confidence, and that bank acceptances were by law impossible, the development led to the exact inverse of European practice. The cash discount open account system made the accounts receivable of the seller illiquid and necessitated his borrowing from his bank, either on his straight name, or by giving security in one form or another. As this form of financing developed over a period of years, it became apparent that the stronger corporations could sell their single name unsecured obligations for short periods to banks other than their own, and this gradually led to the distribution of such paper through so-called commercial paper brokers

to banks all over the country, and ultimately to other investors as well.

Money Rates

As an obvious corollary of this condition, the price of money could never be governed here as it was in Europe by a free nation-wide interplay of demand and supply; whereas in European countries money rates are determined by an open discount market protected against over-violent fluctuations by the operations of the Central Bank, a natural regulation of this sort was precluded in this country. In the first place there was no discount market, and no central reserve system presided over by a central note-issuing bank; in the second place, by the policy of jealously guarding individual state rights, the country was broken up into a large number of small units, with a lack of uniform law and regulation; and finally, since branch banking was not permitted, we soon had some 30,000 individual banks, instead of, as in Europe, a few large institutions with branches scattered throughout the country. The inevitable result of these conditions was that the focal point of the American money market centered in New York, as the only available meeting-ground for the demand of one section and the idle funds of another, and that consequently the price of money was governed very largely by the rate at which loans could be placed in the New York market against stock exchange collateral.

The Federal Reserve Act

When the Federal Reserve System was established in 1914 a modified central banking system was provided, and, by centralizing reserves and giving the banks of the country the power to accept, the first step was taken towards the creation of a discount market. As is always the case when new powers are given to any group of individuals, a grave danger was foreseen in the possible abuse of the newly granted privilege. For this reason the Federal Reserve Act imposed certain rigid limitations upon the acceptance power, and vested in the Federal Reserve Board the function

of determining from time to time by the issuance of rulings and regulations, in what manner the acceptance privilege was to be exercised.

The Acceptance Power

When the Act first went into effect, National Banks were given permission to accept drafts of not more than ninety days time, drawn upon them for the purpose of financing importations and exportations of goods. All National Banks were compelled by the Act to join the Federal Reserve System, and every reasonable inducement was offered to State Banks and Trust Companies to become voluntary members. The Federal Reserve Banks were originally authorized to rediscount the acceptances of member banks, when drawn in accordance with the regulations, but the acceptances of non-member banks were also made eligible for rediscount, when properly endorsed. A general limit was fixed of 50% of a member bank's capital and surplus, beyond which it was not permitted to have acceptances outstanding, except where upon application the Federal Reserve Board approved of its accepting up to 100%.

Widening of the Power

Since the System was established the acceptance powers of member banks have gradually been expanded, and the System itself has been enlarged by the fact that practically every important bank in the country has now become a member bank. The acceptance powers were added to, both by amendments to the Act, and by rulings and regulations of the Board.

In the case of many of the larger banks the limit has been increased from 50% to 100%, and provision has been made for the eligibility of acceptances created by certain non-member banks, corporations, and firms, which make statements to the Federal Reserve Banks. Inasmuch as the demand for acceptance financing cannot be fully met by banks which have large deposits, and are therefore properly prohibited from increasing their liabilities beyond the legally proscribed limit, there is a need for special acceptance

houses, such as have long existed in London. To fill this need the Act was amended so as to provide for special organizations which have no domestic deposit liabilities, and are therefore permitted to accept up to an amount not exceeding ten times their capital and surplus. The International Acceptance Bank, Inc., is a special corporation of this nature.

New Forms Permitted

Furthermore, in addition to widening the power, the field was expanded. Besides financing imports and exports, the power was granted to finance domestic shipments, and readily marketable staples in warehouse, pending sale or distribution; and later, banks were permitted upon application to accept an additional 50% of their capital and surplus for account of banks or bankers in certain countries, "to create dollar exchange." All these various forms of acceptance financing will be taken up in subsequent chapters.

The Policy of the Federal Reserve Board

As time has gone on, and as the American banker has acquired a certain amount of knowledge in regard to the creation of acceptances, the Board has relaxed more and more the stringency of its control over the various types of operations. It has, in the case of import and export credits, increased the maximum length of eligible bills from three to six months; it has permitted greater latitude in the handling of documents and the release of security; and, in short, it has given every indication of its intention to permit custom and common sense at least partially to supplant closely codified regulations, as soon as all danger of abuse arising from ignorance and inexperience has been eliminated.

CHAPTER THREE

The Acceptance as an Investment

IN regard to the security of bank acceptances we cannot do better than to quote from an article published some time ago by the First National Corporation:

Security

"From the point of view of security, a bank acceptance is analogous to a certified check, in that it constitutes a primary obligation of the accepting bank and a contingent obligation of the drawer and of any endorsers whose names may appear upon it. Unless issued to create dollar exchange, in which case the drawer must be a bank or banker, it is always based on a commercial transaction, supported by the customer's agreement with the bank to place the latter in funds in advance of maturity, and often by his pledge of the actual goods involved. In due course it is liquidated by the sale of goods and is, therefore, essentially self liquidating. But the holder of a bank acceptance is not dependent upon the completion of the commercial transaction for the collection of his funds, since his paper is the direct, unconditional obligation of the accepting bank to pay. It is secured by the bank's entire resources, and must be honored, even though the taker of credit should default on his part of the undertaking.

The security of principal is therefore of a high order, and, where the accepting bank is well known, the question of safety is rarely raised."

Liquidity

A great advantage of bank acceptances is that they may be procured to meet almost the exact requirements of any maturity up to six months, and that furthermore, should it be desired to realize upon the investment before the anticipated

maturity, bank acceptances, if held by a third party, are salable in the open market at a moment's notice without the holder's endorsement; and if endorsed by a member bank or other approved name as third party, they are bought freely by the Federal Reserve Banks. In this way they combine adaptability to various needs with the highest degree of liquidity.

All National Banks are permitted to invest in bank acceptances without regard to the 10% limitation of loans to one borrower, which is imposed by the National Bank Act and which applies to purchases of single-name commercial paper. Moreover, State Banks and Trust Companies, as well as Savings Banks and Insurance Companies, are being given the right to buy such paper in an increasing number of States, and during recent years the acceptance has become extremely popular with these and other large corporations, as a means of affording liquidity, security, and at the same time, a good yield for their short time funds.

What Is Behind The Acceptance of the International Acceptance Bank, Inc.

Condensed Statement December 30, 1922

RESOURCES

Stockholders' Uncalled Liability	$5,000,000.00	
Cash on Hand and Due from Banks		$ 7,154,615.18
Acceptances of Other Banks		2,115,254.74
U. S. Government Securities		10,885,686.10
Loans and Discounts		2,699,975.05
Other Bonds, Securities, etc.		3,428,553.62
Customers' Liability, Acceptances (less Anticipations $1,788,354.48)		27,045,621.51
Customers' Liability under Letters of Credit		5,611,383.93
Total		$58,941,090.13

LIABILITIES

Subscribed Capital and Surplus	$15,250,000.00	
Capital Paid In		$10,250,000.00
Undivided Profits		969,519.76
Reserve for Taxes, etc.		202,067.15
Due to Banks and Customers		13,074,143.30
Acceptances Outstanding		28,833,975.99
Letters of Credit		5,611,383.93
Total		$58,941,090.13

PART TWO

Various Forms and Uses of Acceptance Financing

WE have just seen briefly for what purposes the American banks are empowered to create acceptances. We shall now take up in turn each of the different forms of acceptance financing; that is, the sundry varieties of import, export, and domestic acceptance credits, as well as the acceptance to create dollar exchange. Having done this, we shall endeavor to show how these various forms apply to some of the more important general lines of business.

CHAPTER FOUR

Import Credits

Function of the Import L/C

THE sight import letter of credit serves the purpose of enabling an American merchant to buy goods deliverable and payable in the United States from a foreign seller to whom he is not sufficiently well known so that the seller would be willing to draw on him direct.* He can of course only obtain such accommodation if he enjoys the confidence of an American bank to such an extent that it is willing to say to the foreign seller, "I understand that Mr. Jones has bought certain goods from you. At his request I hereby assure you that if you will draw on me up to such and such an amount and send me the documents covering the shipment, I will pay such drafts upon presentation, provided they are drawn and negotiated before a certain date, and that the documents comply with the following instructions."

The Seller's Negotiation

Having this assurance from the American bank, only of course in a more precise form, the seller will not hesitate to prepare his goods, obtain the necessary shipping documents, draw his drafts, and take the drafts and documents, together with his advice from the American bank, to his own bank for negotiation. This foreign bank will then verify the credit and make sure that the documents are those called for, and that the drafts are properly drawn. If everything is in order the bank will then buy the drafts at the prevailing rate for dollars, giving the seller the equivalent in local currency; or, if it so happens that the seller desires to have dollars, it will forward the drafts for collection and deposit to the seller's credit in the U. S.

* Or whose credit is not well enough established to enable the seller to finance himself by offering a bill drawn upon him (the buyer).

So much for the seller. As to the American buyer, he has obligated himself to his bank in New York at the time he applied for the credit, to the effect that he will place it in funds to enable it to pay the drafts when they are presented; this he does as soon as he is notified by the bank. He thereupon receives the documents, which convey title to the goods he has purchased, and so the transaction is completed. All the Bank has done is to lend the merchant the use of its credit, and to attend to the documents. For this service it is compensated by a small commission.

The Buyer's Arrangements

The transaction outlined above is an ordinary sight import credit. If the seller is willing to grant easier terms with payment after the goods have actually had time to arrive, the credit would be made available by drafts drawn at a relatively longer tenor than sight. The only difference, so far as the seller is concerned, would be that when he sells his drafts he would receive a less favorable rate of exchange, since the additional interest would be figured in the rate; for this he would make allowance in his price.

Sight and Time Credits

The negotiating bank would forward the drafts and documents to its American correspondent, with instructions to release the documents to the accepting bank against its acceptance of the drafts. It would further instruct its correspondent either to hold the acceptances subject to instructions or to be credited in account at maturity, or, if immediate funds were desired, to discount the acceptances and credit the proceeds.

Custody of the Goods

The problem now arises as to what the importer's bank is to do with the documents, against which its acceptance has been given. When the arrangements for opening the credit were made, the importer undertook that he would place the bank in funds one, two, or more days before the maturity of its acceptance, according to the terms of the agreement. If in this agreement it was stipulated that the bank should remain absolutely

secured so long as its acceptance was outstanding, it will place the goods in a warehouse until the importer has discharged his obligation, at which time it will release the warehouse receipts and thus conclude the transaction.

Trust Receipts

If, however, the merchant has sold the goods prior to their arrival and desires immediate delivery, the bank, if it is convinced of the actual necessity, will release the documents under a trust receipt. By this instrument the merchant declares that the goods are the property of the bank for which he holds them in trust, and that the proceeds of their sale will immediately be applied towards liquidating the outstanding acceptance. If he collects from his customer before the time at which he has agreed to pay the bank, the merchant will receive from the bank an interest rebate amounting to approximately what the bank can obtain from investing the funds during the remaining period.

Substitutions

It may so happen that the importer will desire to obtain the goods as soon as they arrive, even though they have not been sold, as is often the case with a manufacturer who imports his raw material. It is then a matter for the bank to decide whether the circumstances call for turning over the goods, or whether it will release only if it receives other security in substitution. In the first case it will release under trust receipt; in the second, it will take other raw material, or perhaps finished goods, stored in an independent warehouse; or it will accept as collateral trade acceptances, assigned accounts, or other security.

Commission

In a ninety day import letter of credit such as this, the bank has once more lent the use of its name, and in certain cases, as we have seen, has released the goods to the importer during the period that its acceptance is outstanding. For this service the importer pays a commission which varies according to the risk and is determined in a similar manner as an insurance premium. The

standing of the customer, the character of the transaction and of the commodity, the countries and the length of time involved, all figure in the question of what the charge should be.

Other Costs

In the case of the usual import letter of credit involving the acceptance of time drafts, the importer pays nothing but his bank's acceptance commission and cable costs, unless he desires the credit confirmed to the beneficiary, in which case an additional small charge is incurred. The interest for the time which elapses between the negotiation and ultimate payment of the draft is defrayed by the foreign shipper, being as we have seen, figured by the negotiating bank in the rate it applies when it purchases the draft.

There are some cases in which the seller is willing to ship under a ninety days credit, but only if the cost of the discount is borne by the purchaser. In such an instance the purchaser will ask his bank to open the credit in the usual manner, adding that the shipper is to draw for invoice amount plus discount at whatever rate is agreed upon. Or, the shipper may include ninety days' interest in his invoice price.

Re-finance Agreements

The more usual procedure, however, in circumstances such as the above, is for the importer to bring in his goods under a sight credit, and refinance the latter by a ninety days acceptance. This simply means that he arranges with his bank to open a sight credit in the usual manner, with the additional understanding that, instead of having to pay the bank with his own money when the drafts are presented, he shall be permitted to draw on the bank at ninety days sight and ask it to accept, so that he may sell the acceptances and use the proceeds to meet the sight drafts. The importer will of course bind himself to place the bank in funds before the maturity of its acceptance, and will either receive the goods in trust or warehouse them for the bank's account, as in the ordinary import letter of credit. For this two-fold

For Sight Dollar Credits

service the bank will charge its usual sight credit commission, plus its acceptance commission for ninety days. In this case the seller pays the interest for the time the sight draft is on the water, while the importer bears the cost of discounting the ninety day bill.

For Foreign Currency Payments

There is one other form of import acceptance credit which is not very frequently used, where the importer desires to make payment for goods in foreign currencies and finances his cash remittance by drawing a long dated dollar draft on his domestic bank. In a case of this sort the bank will agree to accept the importer's drafts only upon condition that during the life of the acceptances the shipping documents will pass through its hands, and that it will be put in funds at maturity, or before, whenever the underlying transaction has been liquidated.

Clean Import Credits

It is also possible under the most recent regulations of the Federal Reserve Board, for a bank to accept such long drafts, with nothing more than a letter from the importer stating that the proceeds of the sale of the acceptance will be used for financing an importation. This, however, can only be done provided the importer furnishes definite evidence that the importation has been contracted for and will be liquidated before the maturity of the acceptance.

This recent regulation brings us very much nearer to the condition which prevails in London, where an acceptance bank in lending the use of its name is guided solely by its own judgment and the composite judgment of the market, as expressed in its willingness or unwillingness to buy the acceptances which it creates.

CHAPTER FIVE

Export Acceptance Credits

WE have just discussed the manner in which an American importer is assisted by his bank to purchase from a foreign seller, to whom he is not sufficiently well known to be able to obtain direct shipments. The reverse of this picture is presented when the American merchant is selling to a foreign customer from whom he demands a letter of credit opened in New York. In this case the foreign purchaser asks his bank to open a credit with an American bank, and the American seller simply prepares his documents in accordance with the terms of the credit and negotiates his drafts with his own bank,—or with the bank at which the credit has been established.

Exporting Under a Bank Credit

Where, however, the foreign purchaser is of sufficiently good standing so that the exporter is willing to dispense with a letter of credit, there are several other ways in which the transaction may be financed.

Direct Drawing

1. The exporter may draw at sight on his purchaser, with documents attached, and give these documentary drafts to his bank for collection.

Sight

2. He may draw a time draft on the purchaser and give it to his bank for collection, with instructions to obtain acceptance of the draft and hold the documents until the acceptance is paid.

D/P

3. He may draw as above and instruct his bank to release the documents when the draft is accepted.

D/A

4. He may simply invoice the goods on open account to the purchaser.

Open Invoice

In all four of these cases it may be that the importer is in a sufficiently strong cash position

so that he does not require any advance from the bank. Under such circumstances he uses the bank merely as a collecting agent. For this service the usual charge is a nominal commission plus whatever the bank's foreign correspondent will charge for obtaining acceptance and payment.

Straight Collections

Very often, however, the exporter is anxious not to tie up his funds, and therefore will request the bank to carry the transaction for him. This can be done in several ways:

1. If the drafts are drawn in foreign currency, the bank may purchase them outright from the exporter, in which case it will not charge a commission, but will figure the interest for the approximate time the funds will be outstanding in the rate of exchange it applies. Should the drawee refuse payment or be unable to pay, the bank will then look for payment to the maker of the bill, namely, the exporter. If the bank so desires, it may require the additional protection of a fixed deposit of a certain percentage of the outstanding collections.

Sale of Foreign Currency Drafts

2. If the drafts are drawn in dollars the procedure is much the same, except that the interest for the time the funds will be outstanding is deducted as discount instead of being calculated in the rate of exchange. When the bank does not want to advance the full amount of the draft, it will, instead of asking for a cash deposit, simply advance whatever portion of the face amount it deems proper, thus creating a margin in the bill itself. Sometimes, also, it is so arranged that the exporter will draw for only a certain portion of the invoice value, so that the bank is protected by having title to goods worth more than the amount of its advance.

Discount of Dollar Drafts

3. If the exporter is unable to obtain a letter of credit established in his favor, and would only draw direct if he were relieved of all liability should the buyer default in meeting his acceptance, the bank may in certain cases be willing to assume

Del Credere

this risk and buy the foreign bills without recourse to the exporter. This, however, the bank will only do either where it knows the drawee and has absolute confidence in him, or where it can reinsure the risk in one way or another. For assuming this additional liability, usually known as the "del credere," the bank will charge a fairly heavy commission, commensurate with its judgment of the hazard.

The Export Acceptance Credit

The methods just discussed all involve the use of the bank's funds, and the willingness of any bank to finance its export customers by making such advances depends to a large extent upon how much money it has available for the purpose. The same end can, however be accomplished by the use of the acceptance market, in such a way that the bank lends nothing further than its credit.

Operation

The export acceptance credit is based upon an agreement signed by the exporter to the effect that, in consideration of the bank's willingness to accept drafts drawn upon it against certain specified collections, he the exporter, will guarantee that in the event that the proceeds of the collections should not be received in time to meet the outstanding acceptance at maturity, he himself will place the bank in funds.

Assuming, for example, that the exporter has sold three lots of merchandise of $10,000, $20,000, and $30,000. to three different parties in Holland on thirty day sight drafts, he will bring these drafts with their respective documents to the bank, together with an agreement such as we have outlined. The bank will then let him draw upon it for $50,000. at sixty days, thus allowing time for the collections to reach their destination and for the proceeds to be remitted before its acceptance falls due. If remittances are to be made by cable the drafts on the bank would be for a correspondingly shorter time.

The bank's factor of safety over and above the solvency of the exporter, lies in the margin be-

Margin of Security

tween the total amount of the pledged collections and the amount which it accepts against them, and this margin is of course adjusted to suit the individual case. Where the exporter is a very powerful corporation with large resources and a good reputation, the margin may be entirely dispensed with. In a few exceptional cases a bank will even permit such a corporation to draw upon it against shipments made abroad on open account, provided the evidence of such shipments passes through its hands during the life of its acceptances. This practice, however, is strictly confined to a very small class of large concerns of undoubted standing.

Advantage

For this service the bank will charge its usual acceptance fee plus its collection commission and costs. The great advantage of such financing is that it makes the exporter more independent of temporary periods of stringency during which his banks are reluctant to advance cash, while accepting institutions would be more willing to lend their credit and let the market absorb their acceptances.

CHAPTER SIX

Domestic Acceptance Credits

BEFORE we proceed to apply the principles of import and export acceptance financing to a few concrete examples, it may be well to consider for a moment the two other forms of acceptance credits which American banks are permitted to extend. One of these, the acceptance for the purpose of creating dollar exchange, which we shall discuss in the next chapter, is of little interest to the American merchant, since it can be given only for foreign banks and bankers in certain countries.

Kinds of Domestic Acceptance Credits

The domestic acceptance credit is, however, of very great importance to the American commercial enterprise, and has perhaps the widest appeal of all. For this reason it is also the form which tends the most readily to invite abuse. It may be given for either of two purposes; to finance a domestic shipment of goods; or to finance readily marketable staples stored in independent warehouse pending their sale or distribution into the processes of manufacture.

Domestic Shipment for Buyer's Account

The financing of a domestic shipment may be done by a bank for the account of either the buyer or the seller. Where it is done for the buyer the procedure is substantially the same as in opening an import letter of credit, except of course that the transaction itself is very much less complicated. A New England cotton spinner who is buying cotton in New Orleans will, for instance, ask his bank to open a commercial letter of credit in favor of the Southern shipper. At the same time he will sign an acceptance agreement binding him to provide funds before maturity of the bank's acceptance. The shipper obtains his railroad bills

of lading and negotiates with his New Orleans bank, thus receiving his funds. The Southern bank forwards the drafts to Boston releasing against the acceptance of the buyer's bank. The latter, in turn, either releases the cotton under trust receipt, or has it warehoused, as the case may be. If the cotton is liquidated before the acceptance has matured, the buyer will anticipate and receive his rebate; if not, he will provide funds when the due date arrives.

Domestic Shipment for Seller's Account

This very same transaction could be financed by the New Orleans bank for account of the seller, but this would be less desirable for two reasons: in the first place the commodity, which underlies the transaction, immediately passes out of the control of the bank, leaving it with nothing but the assurance that a distant debtor will pay, and only a secondary recourse to its customer, the shipper; in the second place, the shipper's bank is not usually in a position to supervise the liquidation of the transaction. The first objection can be partially overcome by having the shipper draw a supplementary draft of like maturity on the buyer, which the latter must accept in order to obtain the documents, thus making the transaction similar to an export acceptance credit, in so far as the acceptance is secured by a collection. Even though the transaction is in this way made technically self-liquidating, the fact remains, as has been admirably pointed out in a recent article by Mr. Wilbert Ward, that "The bulwark against inflation is the careful valuation of the absorptive power of buyers" and that "The best judges of this situation are the buyers' banks."

Credit Against Warehoused Staples

The second form of domestic acceptance credit is the one whose purpose is the financing of "readily marketable staples" stored in warehouse. This rather baffling term has been defined by a number of rulings, and is intended, generally speaking, to cover such articles as are constantly being dealt in in free markets and at readily ascertainable

prices, so that they can at any time be realized upon without difficulty. Under the regulations of the Federal Reserve Board acceptances made against such commodities in warehouse are eligible only if the commodity is stored pending a reasonably immediate sale, shipment, or distribution into the process of consumption or manufacture. Furthermore, the warehouse must not be under the control of the borrower.

Operation

If, therefore, a merchant desires to obtain an acceptance credit against grain, he will either give the bank negotiable elevator receipts and insurance policies, or better still, he will have the grain stored and insured in its name. He will then satisfy the bank that he is not holding the grain on speculation, but expects to deliver it against sales, either domestic or foreign, within a reasonable time. Upon his executing the usual acceptance agreement, the bank will then allow him to draw upon it for not longer than three months. As the grain is sold the bank will deliver the receipts against cash, or shipping documents, which will convert into cash, and it will rebate interest for the unexpired time of the acceptance.

Abuses

In both forms of domestic acceptance credits there is a distinct danger of abuse; the peril in credits for domestic shipment lurks in the fact that through carelessness such credits are easily permitted to run on after the underlying transaction has been liquidated; with credits against goods in warehouse there is a risk that these credits may be misused to finance speculative purchases, and that the banks may not effectively control the warehouse companies and the collateral.

CHAPTER SEVEN

Acceptances to Create Dollar Exchange

Legal Restrictions

UNDER section thirteen of the Federal Reserve Act, American banks are empowered to accept drafts of not longer than three months, drawn upon them by banks or bankers in certain countries for the purpose of creating dollar exchange. The object of granting this privilege was to provide a means whereby dollar exchange could easily be obtained in such countries where the customs of the trade require it. Any member bank desiring to create such acceptances must apply for permission to the Federal Reserve Board, and the Board's rulings in such cases are published from time to time in the Federal Reserve Bulletin.

Application

This form of financing applies primarily in Central and South America, where the American dollar is the dominating factor, and to the insular possessions of the United States. It further applies, and is gradually being extended to other parts of the world, where the United States dollar plays an important part, and where the foreign banks consequently experience a demand from their customers for American funds.

This demand may arise from the fact that the foreign country is a heavy purchaser of American goods, and that United States funds are therefore required in order to make the necessary payments, while it is still some time before the crop movement will provide any dollar drafts. This situation frequently arises in countries which are dependent upon one crop, such as wool or coffee.

At the same time prospective shippers may wish to secure the existing dollar rate of exchange by

selling future dollars to the local foreign banks, and these banks, having bought forward dollars, can now supply the demand for spot through their sales of dollar exchange drafts.

Methods of Operation

A dollar exchange drawing, once permission is obtained from the Board, may be handled by the accepting bank in one of several ways. Under all circumstances the foreign bank must agree to provide cover before the acceptance matures, but during the life of the credit various things may happen. The accepting bank may require the foreign bank to deposit the equivalent of its dollar drawing in local currency with a third party, guaranteeing also to make further deposits if from time to time required in order to maintain full cover. Such a deposit may also be made in a third currency, as, for instance, where an Argentine bank would draw dollars and deposit the equivalent in Sterling to the American bank's credit with its London correspondent. Again, the accepting bank might be willing to take local government bonds as collateral; and in some cases, where the borrower is an exceptionally strong institution, the accepting bank might go even further in facilitating the transaction.

CHAPTER EIGHT

Grain and Foodstuffs

HAVING outlined in the preceding chapters the general operation of the various forms of acceptance financing, it may now be interesting to see how these methods apply to a few of the major industries. Since the most fundamental requisites for the existence of man are food and protection of his body, it is natural to consider first how foodstuffs and clothing materials may be more easily procured by means of the acceptance credit.

The U. S. an Exporter of Grain

The United States produces far more grain than it consumes. During 1921 we exported:

280,057,601 Bushels of Wheat,
128,974,505 Bushels of Corn,
29,811,721 Bushels of Rye,
25,834,000 Bushels of Barley.

The bulk of this grain was sent to European countries, the largest purchasers of American grain being England, France, Italy, Germany, Holland and Scandinavian countries.

Use of Domestic Acceptance Credits

The acceptance credit can be used to finance grain from the moment it is harvested until the proceeds of its sale abroad are collected. When the grain is first stored in elevator pending its shipment to seaboard, the originating grain merchant may properly finance his purchases from the grower by a domestic acceptance credit against warehouse receipts lodged with his bank. As the grain moves to seaboard, railroad bills of lading will be substituted, and usually these are accompanied by shippers' drafts drawn on an export merchant in one of the principal ports. The export merchant will again require the assistance of banks to enable him to take up these drafts and

assemble his grain at tide-water, and eventually to make his shipments abroad. This may give rise either to an acceptance credit for domestic shipment or against warehoused grain, which again will gradually be converted into an export acceptance credit. If the foreign shipments are to be made immediately when the grain is received from the West, an export credit is often resorted to in the first instance.

Export Credits

A certain amount of grain is of course sold under letters of credit established here by European purchasers through their banks. Another very large proportion is sold on foreign currency drafts which are not ordinarily used as the basis for an export acceptance credit. By far the largest proportion, however, is sold abroad in dollars and is most easily financed by an export acceptance credit with the documentary shippers'-drafts as the underlying collateral.

Meats

The United States is both an importer and exporter of meat and meat products. The so-called Big Five Packers are large shippers to Europe, chiefly of lard and similar meat products, and these transactions again are most suitably financed by export acceptance credits. Imports of frozen meat from the Argentine, on the other hand, are most readily handled by means of the import letter of credit.

Sugar and Other Foodstuffs

The bulk of the sugar consumed in the United States is grown in Cuba, whence it is imported on credits opened by American banks on behalf of the large refineries and produce merchants. A number of the big Cuban sugar companies, which are American owned and controlled, also make it a practice to finance the actual growing of the sugar crop by means of acceptance credits. In such cases the drafts are drawn during the so-called dead season, and during their life become secured by sugar in warehouse, being ultimately liquidated by the sale of this sugar. In some cases this same raw sugar is then re-financed during the

refining process by an import acceptance credit, or by a domestic acceptance credit against refined sugar in warehouse pending sale.

The importation of coffee from Central and South America, of nuts from South America, and of teas and spices from the Orient, is financed largely by the use of import letters of credit. So also are financed shipments of cocoa, beans, rice, vegetable oils, fruits, and many other foodstuffs.

CHAPTER NINE

The Textile Raw Materials

U. S. Imports and Exports

THE three chief raw materials from which textile fabrics are made are cotton, wool and silk. The United States is the world's largest producer of cotton, and therefore exports a heavy surplus of raw material which is not consumed by domestic spinners. On the other hand, all the silk which is used in the United States is imported from foreign countries. Of the wool consumed in the United States about one-third is grown in this country, the other two-thirds being imported chiefly from South America, Australasia and South Africa.

Cotton

The United States produces, roughly speaking, two-thirds of the cotton which is grown in the entire world, and consumes approximately one-fourth of the world's cotton supply. The average cotton crop of, let us say nine million bales, is therefore divided roughly into a little over a half which is exported, and a little less than a half which is used by domestic mills. The use of the acceptance credit in financing the cotton crop of the United States is manifold.

Domestic Acceptance Credits

In the first place when the cotton is collected at concentration points and compressed into bales, it is usually stored in warehouse pending sale or shipment by the Southern cotton merchants. A great deal of the cotton stored in this manner is financed during the preliminary stage of distribution by domestic acceptance credits against warehouse receipts. That portion of the cotton which is destined for domestic consumption is then frequently financed by a second acceptance credit opened by the consumer or the consumer's purchasing agent, and this second credit may either be against domestic shipment, or a credit under which the cotton is warehoused by the mill awaiting manufacture. In other words, for the cotton which is consumed in this country two credits come into question; the first for the merchant who collects the cotton in the South, and the second for the ultimate consumer. It may, however, easily occur that one or more intervening middle men will in turn make use of acceptance financing to carry the cotton before it ultimately reaches the mill.

Export Credits

As for the cotton which is exported, the procedure usually starts in the same way, that is, with a domestic acceptance credit against warehouse receipts. This credit is then gradually converted into an export credit under which ocean bills of lading and shippers' drafts take the place of the warehouse receipts. If the cotton is sold in fairly stable foreign currencies, the credit is usually liquidated at the time that the foreign currency drafts are sold.* If, on the other hand, the cotton is sold abroad in dollars, the dollar drafts on the foreign purchasers are used as underlying security for an export acceptance. Quite a large proportion of the cotton exported, however, is shipped under letters of credit opened here by foreign purchasers, so that the actual shipment is financed by them and not by the American exporter.

Imports

The manufacturers of tire fabric, who require long-staple cotton, import a certain amount from Egypt, and certain kinds of cotton are also imported from Haiti, Brazil, Peru and China. These shipments are usually financed by the customary import letters of credit.

* * * *

Wool

In the assembling and marketing of the domestic wool crop the acceptance credit plays much

*Under the present chaotic circumstances there are a number of foreign countries on which most American banks will take foreign currency drafts only for collection.

The Domestic Crop

the same part as in the distribution of the country's annual output of cotton. Whether for domestic shipments, or for financing warehoused wool preparatory to its being sold, the banks every year lend their credit for the purpose of bringing the wool "off the back of the sheep to the back of the man."

Foreign Wool Import Financing

The United States imports a large quantity of wool from South America, chiefly from Buenos Aires and Montevideo. These importations are almost entirely financed by letters of credit opened by the American wool merchants, most of whom are located in Boston. There are a few large manufacturers who import for their own account, but the bulk of the foreign wools brought into the country are purchased by merchants, who in turn sell to the domestic manufacturers. Inasmuch as wool imports are seasonal, the import letters of credit are frequently extended by domestic acceptance credits against warehoused wool, so as to enable the merchants during the purchasing season to carry large stocks, which are ultimately distributed to manufacturers.

Danger of Trust Receipts

Inasmuch as wool is rarely sold to the mills in the original lots as received from foreign countries, it is necessary to permit the wool merchant to obtain the shipping documents under trust receipt, so that he may regrade the wool into such lots as will suit the requirements of the trade. It is almost impossible to trace a given lot of wool after it has been regraded, and therefore an acceptance credit which is secured by wool released under trust receipt, is an exceedingly dangerous operation which can only be risked with merchants who have a large capital and enjoy the very best standing.

Much the same situation holds true as to imports from Australia, New Zealand, South Africa and China, from all of which countries some wool is imported on dollar import letters of credit. There is, however, this difference that the bulk of

Australian and New Zealand wool is handled via London and is often imported on Sterling letters of credit.

* * * *

Silk Imports

No silk whatsoever is produced in the United States, the chief sources of import being Japan, China and Italy. A large proportion of the imports from Japan are handled by Japanese houses having agencies in New York, and of recent years these Japanese merchants have obtained dollar import letters of credit from American banks to finance such operations. These credits are almost invariably fully secured by warehouse receipts covering silk in storage, or by trade acceptances, resulting from the sale of silk. There are a certain number of domestic consumers of silk who are large enough to import their own raw material, and these manufacturers frequently open their own import letters of credit through their banks and receive a partial release of the merchandise under trust receipt for manufacture. A few of the most important American silk manufacturers are so well known in Japan that they receive direct shipments with drafts drawn upon themselves.

CHAPTER TEN

Hides and Skins

SHOES rank next to food and clothing as the most important articles of our daily life. The raw material for sole-leather consists of the hides of cattle, whereas most upper leather is produced from the skins of smaller animals, such as calves, sheep and goats. (Hides are also used in making upper leather by the splitting process). Of all the materials consumed in this country in the manufacture of various kinds of leather, about 45% of the cattle hides, 52% of the calfskins, 60% of the sheep-skins and almost 100% of the goat-skins, are imported from foreign countries. By far the heaviest importations of cattle hides are from the Argentine, with Canada and Uruguay in second and third places. Calfskins are imported chiefly from France as well as from India and a number of other countries. The largest imports of sheep skins are from Australia and New Zealand, and the next largest from the Argentine and Canada. Goat-skins are most heavily imported from British India, while the second greatest supply is obtained from China.

Proportion of Imports

Sole leather tanners derive their raw material from two sources; first from the domestic packing industry ("Packer Hides"), and second from the large Argentine packing plants ("Frigorificos"). A further supply is obtained from the smaller killing plants throughout this country and South America. A few special kinds of hides are imported from other countries.

Sources of Hides for Sole Leather

Most of the sole leather tanners of any consequence import their own Frigorificos from the Argentine and these imports are almost invariably financed by dollar import letters of credit. The

smaller tanners buy through merchants or commission dealers, who again make use of the same sort of financing. In some cases the American importer maintains his own establishment in the Argentine which does his buying for him. It is then customary for the importer's bank either to open sight credits under which the South American agent may draw, and to refinance these sight credits by a ninety day acceptance in New York; or to cable Pesos to Buenos Aires for the importer, for which he pays out of the proceeds of drawing a ninety day draft.

Financing Frigorificos

Imports of China hides and goat-skins are very frequently financed by import letters of credit, but as purchasing in China has to be done in small lots by agents who travel through the country, such imports are almost entirely handled by merchants who specialize in this business, and who often have to provide a part of the financing out of their own capital. The same is true of imports from India and other points in the Far East.

China Hides

Shipments of calfskins and light hides from Europe are sometimes financed by import letters of credit, but more frequently the American importers enjoy the confidence of the European sellers to such an extent that shipments are made to them direct, either on consignment or on sight or time drafts. The import of sheepskins from Australia is financed partially through London on Sterling credits, and partially on dollar import letters of credit issued through Australian banks.

Sheepskins

The releasing of hides and skins under trust receipt to a manufacturer is far less dangerous than in the case of cotton, silk or wool. It is quite feasible to mark hides and skins in such a way that they may be traced straight through the tanning processes and identified as finished leather, whereas, the identity of cotton, silk, or wool is lost at the moment that the bales are opened and their contents mingled.

Trust Receipts

CHAPTER ELEVEN

Other Raw Materials and Manufactured Goods

Manifold Use of the Acceptance Credit

IT would be impossible, at least within the confines of this pamphlet, to follow out the possible and actual uses of the acceptance credit in all the various ramifications of our import and export trade. Our object here is not to present a complete picture, but merely to sketch in the outlines by choosing a few of the most prominent features. As in the case of the commodities we have just considered, so also the acceptance credit is used to bring oil from Mexico, hemp from the Philippines, dyes from Germany, tin from the Straits Settlements, lumber from Alaska, rubber from the East and from Brazil, jute and burlap from India, woodpulp from Sweden, and any number of other things from different parts of the world to the United States. So also are the surplus raw materials produced in this country, and the products of its variegated industries distributed to every country on the face of the globe.

Metals

In the metal industries shipments of ore from the mine to the furnace, of pig iron from the furnace to the foundry, and of finished steel from the foundry to its ultimate destination, are all fit cargo for the acceptance credit. The same is true of the non-ferrous metals, particularly of copper and copper products. And silver and even gold,—curious as it may seem that they should require a credit vehicle to carry them,—are frequently shipped from one country to another by means of the banker's acceptance.

We have seen in a superficial manner how the acceptance credit provides a means for financing

Exports of Manufactured Goods

our export of grains, foodstuffs, and cotton. In a similar way it serves to float the burden of our foreign sales of finished textiles, leather and leather goods, and all the vast quantity of manufactured articles that fall between the extremes of simple tools, such as hammers and saws, and complicated machinery such as agricultural tractors, automobiles and railroad equipment.

The Automobile Business as an Example

To take only one example, the exports of the automobile industry, exclusive of trucks and motor-cycles, have for the last ten years averaged in excess of one hundred million dollars per annum. At the present time a very large part of these exports are being financed by commercial letters of credit. For the most part the American automobile manufacturers are unwilling to assume any risk whatsoever in connection with their foreign sales, and insist, therefore, that the foreign purchaser provide them with cash against shipping documents in New York. This is done, in practically every instance, by means of a letter of credit, opened on behalf of the purchaser by his own bank with its New York or middle-western correspondent. The manufacturer is advised by the bank how to prepare his documents, and whether to draw at sight or for a specified length of time, with or without discount included, as the case may be. Having negotiated his documents, he has nothing further to worry about, unless, having drawn a time draft on a bank and discounted its acceptance thereof in the open market, he should be called upon to make good this acceptance to a bonafide holder, by reason of the bank's inability to meet its obligations. This contingency, while remote, should nevertheless be borne in mind by the manufacturer, so that he will not consent to ship under credits opened with banks of whose solvency he is not absolutely certain.

Credits Opened from Abroad

A few automobile companies ship to their own agencies abroad on a consignment basis. Others have a few preferred foreign customers to whom

Direct Shipments

they make direct shipments on documentary drafts. This latter class of shipment is ideally financed by an export acceptance credit secured by collections, and it is only reasonable to assume that, as conditions in Europe inspire more confidence, a larger proportion of the business will be transacted in this manner.

The Necessity for Giving Credits Abroad

In a general way the automobile situation is analogous to a great many other lines. Our country is young in the export of manufactures; it has, as every one knows, become a real export factor chiefly by reason of the incapacitation of European competition. Whereas the export trade of England, Germany, and France was built up by years of endeavor, and by a willingness to extend credit in foreign countries, the demand for our goods abroad is due almost entirely to the absolute necessity for them which has arisen during recent years. It is true that American industry was quick to take advantage of the opportunity; true also that a great number of American goods have become firmly established, not because no others were obtainable, but because of their intrinsic merit; but the fact remains that if we are to hold our newly acquired foreign customers, we must, as soon as conditions warrant, grant them the credit facilities which they are used to receiving from British and German merchants. To this end there is to be found no greater assistance for the exporter than the export acceptance credit.

PART THREE

The Relation of the Customer to the Bank

HAVING surveyed hastily the general operation of the acceptance credit, and having seen in a rather impressionistic manner how this form of financing serves some of the major needs of modern business, we shall proceed now to an equally brief consideration of some of the factors that determine the relation between a bank and its customers.

The object of this part of our discussion is to indicate upon what grounds a bank bases its attitude towards business which may be proposed to it, and also to point out a few of the pitfalls which beset the path of acceptance financing. Since we are not here concerned with the usual form of banking business, that is, with the deposit account, the use of the word, "Client," is in every instance intended to designate an actual or potential borrower.

CHAPTER TWELVE

Becoming Acquainted with the Customer

THE first requirement of a bank in forming any relationship is confidence, based on full knowledge. This it can obtain in two ways; by asking the customer, and by asking about the customer. By inquiring among competitors, from those who sell to and buy from the customer, from commercial agencies, and from other banks who share the customer's business, a bank may learn a great deal worth knowing; but in the last analysis, it will never feel absolute confidence unless the customer lays all his cards on the table. For a client to conceal anything from his bank is as foolish as if he concealed it from his doctor or his lawyer, and if the client fears that his banker will not preserve absolute discretion in regard to his affairs, the thing for him to do is to take his business to a banker concerning whom he has no such apprehensions.

How a Bank Learns

The three chief points concerning which a bank wishes to satisfy itself are: the moral integrity of the client; his business ability; and his financial responsibility.

What It Needs to Know

In answering the question "Do I want this man as a business associate?" the banker's own personal impression is weighed in conjunction with whatever outside opinions he has been able to collect. If the answer is negative, no further consideration of other factors is necessary. If, on the other hand, the banker feels confidence in the client's moral character, he will proceed to investigate his business ability and financial means.

Character

Capability

The question of capability is again answered by a composite picture in which first hand impression is combined with the results of judicious inquiry, but a third factor enters into the consideration, in that business ability will usually show concrete results. Careful study of a series of the annual balance-sheets of an enterprise, together with full knowledge of the attendant circumstances, will, in most cases, yield a fairly clear conception as to the ability of the management.

Capital

This same analysis will also provide the answer to the third question, which is the financial condition of the client's business. The intelligent reading of a balance-sheet is an art which cannot be described in a few words; certainly it is not the mere application of the hackneyed formula, that quick assets must bear a certain minimum proportion to current liabilities. We are here concerned, however, not so much with the problem of reading a financial statement,—which after all is the banker's business,—as of preparing it.

Balance Sheets

From this point of view, there is just one all important axiom: that the object of a balance-sheet is not to make a certain kind of showing, but to present the facts as they are. Moreover, a bank is not merely concerned with the present, but is vitally interested in the probable future condition of its client's affairs. A mere statement of assets and liabilities and a summary of profit and loss accounts as of a certain day is therefore not in itself sufficient. Only too often a concern that makes an excellent showing in July is hopelessly insolvent in December, because of certain elements which do not figure in the usual balance-sheet, but which are nevertheless vitally important.

It is impossible to enumerate the supplementary information with which a client should provide his bank. Obviously he should make a clean breast of all contingent liabilities, no matter how remote they may seem, and of all contractual commit-

The Invisible Figures

ments. He should prepare also a full schedule of his inventory valuation and accounts receivable, imparting to the bank any doubts he may entertain concerning the ability of his customers to pay, or the possibility of disputed items. But beyond all these concrete factors, once the relationship is established, he should take the bank into his confidence in regard to all his hopes and fears, for only in this way can he receive from the bank the intelligent advice and support to which he is entitled.

CHAPTER THIRTEEN

The Analysis of a Customer's Business

ASSUMING that a bank has satisfied itself as to the standing of a given customer and is in principle prepared to finance a part of his business, two general questions then arise: first, how large a total commitment the bank is willing to make to this customer: and, second, into what classes of business this commitment is to be subdivided.

The Credit "Line"

The establishment of a general "line" of credit depends chiefly upon the factors already considered in the analysis of the customer, that is, his standing and the amount of working capital he has at his disposal. In addition, the character of his business and of the articles in which he deals, and the amount of accommodation he is receiving from other banks, are the most important elements.

Kinds of Business

The Cotton Merchant

Here once more we are faced with the unpleasant necessity for inadequate generalization, both as regards different kinds of business and different articles of trade. To take only one example, the cotton merchant and the cotton manufacturer will serve to illustrate what is meant by different kinds of business. The dealer in raw cotton ordinarily requires no fixed assets in the way of plant or machinery; his entire invested capital, whatever it may be, is represented either in cotton, or in money paid or owing to him by reason of his sales of cotton. Similarly his debts will consist of accounts payable for cotton he has bought, or of bank loans or credits against cotton in warehouses or sales in the process of collection. With him it is therefore largely a question of what proportion

his assets bear to his liabilities, whether his unsold cotton is hedged by sales of future contracts, whether all his sales are covered by purchases, and what unused borrowing facilities he has at his disposal from other sources.

As Against the Cotton Manufacturer

The cotton manufacturer, on the other hand, has a large part of his invested capital tied up in plant and machinery, another part temporarily immobilized in material which is in the process of manufacture, and only the remainder in the form of quickly realizable assets, such as unused raw cotton, finished goods and accounts receivable. His liabilities may consist of bonds, secured by mortgage on the plant; bills payable for cotton, supplies or machinery; and bank loans and credits of various kinds. What is more he has a heavy payroll to meet, labor conditions to contend with, sales campaigns to organize, and a number of other things to worry about, all of which tend to complicate his business. In deciding what commitment to make to a client of this sort, a bank will obviously have to consider a variety of factors in addition to those affecting the case of the cotton merchant.

Kinds of Commodities

The difference of risk arising from the character of the underlying commodity is again best demonstrated by a concrete instance. In dealing with a grain merchant the bank knows that his funds, and consequently borrowed funds as well, are invested in wheat, corn, oats, rye, or barley, all of which are quoted every day and can readily be realized upon at any time. In contemplating a credit to an importer of nuts, on the other hand, the bank takes into consideration that it is dealing with a commodity which not only lacks a wide and reasonably steady market, but is perishable as well.

* * * *

Having established by careful study the amount of general credit to be held at the disposal of a given customer, it remains for the bank to decide

Distribution of the "Line"

how this line is to be used for different kinds of transactions, and what conditions are to govern each particular piece of business. Where it is a question of financing sales, the distribution of risks among different purchasers and different countries is an important consideration. A bank might, for instance, easily object to financing sales of more than $50,000 worth of goods to one foreign concern, even though it were willing to give its customer credits up to $500,000. It might also be unwilling that, out of a total commitment of $500,000, more than $100,000 should at any time be outstanding in collections on any one country where conditions are somewhat unstable. Again, while it might be willing to finance collections in one place releasing documents against acceptance, it might insist that documents be delivered in another only against payment. It might grant a credit of 90% of the value of collections on certain stable countries and refuse to advance more than 50% on bills drawn on others in whose economic conditions it lacked confidence.

In Financing Sales

In Financing Purchases

Where the problem is that of financing purchases, various other factors are involved. Primarily, the bank must gauge the actual buying power of its customer and be constantly on its guard to discourage him from over-heavy purchases. Further, the bank must to a certain extent consider the market conditions for the article which is to be purchased, not only from the point of view of any one customer's business, but taking into consideration its own total commitments in that particular article of trade. For example, a bank might refuse without special protection to open a credit of $200,000 for the importation of rubber, not because the amount was in excess of the importer's established line of credit, but because it thought that the rubber market was weak. Feeling that crude rubber prices were likely to suffer a sudden drop, the bank might refuse, either because it considered the business unwise

for its client to undertake, or because its own commitments based on rubber transactions were as heavy as it desired them to be for the moment.

The Question of Collateral

Finally, in the financing of purchases, there is the problem of deciding to what extent any given credit shall remain secured. This is very largely a matter which depends upon the nature of the business. Leaving aside those customers who are not strong enough to be entitled to any unsecured credit whatsoever, the question is one which crops up with almost every client at one time or another, and frequently a customer will falsely construe a bank's unwillingness to release goods from warehouse as indicating a lack of confidence. The fact of the matter is that all banks must restrict within certain limits the amount of unsecured credits which they extend, and that they can only perform the maximum service to the business community if they reserve such credits for the cases in which they are really required. There is no valid reason why every export credit should not be self-liquidating and self-secured, but in the case of imports or domestic purchases there are cases where the borrower must obtain the goods, either for delivery under sales, or for manufacturing purchases. In some of these latter instances it is possible for the borrower without hardship to substitute other collateral, but where this cannot be done the bank must either extend unsecured credit or decline the business.

CHAPTER FOURTEEN

A Few Technical Pitfalls

A VAST amount of trouble could be avoided in the use of commercial letters of credit if phrases always meant the same thing to different people, and if more care were exercised in the wording of the terms and instructions given by one party to another. Much has been accomplished by a recent conference at which most of the leading banks and bankers agreed upon certain standard forms* to be used in connection with letter of credit financing, but even more remains to be done in the way of disseminating knowledge among the users of such credits. For this reason we shall mention briefly a few of the most frequent causes of misunderstanding.

Standardized Forms

When a customer requests his bank to open an import letter of credit he signs two documents, an application and a letter of credit agreement, the latter being printed on the reverse side of a copy of the credit as issued by the bank.

The Import L/C Application

In making out the application the client states:

1. In whose favor the credit is to be opened, by mail or cable.
2. For what amount it is to be opened.
3. For how long it is to remain available.
4. Whether it is to be revocable or irrevocable.
5. How it is to be available.

Beneficiary

Number One requires no explanation, since it consists merely of the name and address of the

* These standard forms have been published by the American Acceptance Council and will be furnished on request by the International Acceptance Bank, Inc.

beneficiary. Nevertheless many credits have been delayed because this name was mis-spelled or slightly incorrect in the application.

Amount

Number Two states the maximum amount which may be drawn and names the currency in which the credit is to be established. If the credit is to be revolving, that is, to be used over again several times, it must be clearly so stated.

Expiration

Number Three determines the last day on which drafts may be drawn and negotiated. The expiration date has nothing to do with the presenting of drafts for payment in New York, which may take place considerably later.

Revocable or Irrevocable

Number Four makes the credit either subject to cancellation by the party which has opened it (revocable), or expressly waives all right to cancel or in any way amend without the consent of the beneficiary (irrevocable). A revocable credit, moreover, can only be cancelled for such portion as has not been availed of prior to actual payment or negotiation of draft drawn thereunder. This is a matter which has frequently been misunderstood.*

Drafts and Documents

Number Five, however, is the greatest cause of trouble and annoyance. In this paragraph the importer instructs the bank how and under what terms the beneficiary is to be permitted to use the credit. In the first place he states whether the drafts are to be drawn at sight, or some other tenor. Then he enumerates what documents are in each case to accompany the drafts. These documents usually consist of:

a) Invoices for a stated number of units (bales, boxes, pounds, casks, etc.) of whatever merchandise is to be shipped. If the clause "10% more or less" is added, or the words "about," "approximately," etc., are used, a certain leeway is permitted.

* A *confirmed* irrevocable credit, which must be specially requested, is confirmed to the beneficiary by the bank which advises the credit, and becomes the irrevocable obligation of that bank.

The merchandise must also be described if invoices are to evidence a certain quality.

b) Ocean Bills of Lading. It must be clearly stated whether only "On Board Steamer" Bills are to be accepted, or "Received for Shipment" Bills as well.

c) Insurance. It must be definitely stated whether policies or certificates are required; and what sort of insurance is to be provided by the shipper (unless purchases are on a C. I. F. basis).

d) Consular invoices, where required.

e) Weight certificates, or other special certificates if required.

Importance of Careful Instruction

The instructions in regard to invoices, bills of lading, and insurance cannot be too carefully prepared. The importer's bank will pass them on exactly as received, and the negotiating bank in the foreign country will comply with them to the letter, or else make itself liable for wrong negotiation. Inexperienced importers often do not understand that the bank's sole duty is to procure the documents specified, and that if the documents are in order but the goods faulty, the bank can in no way be blamed.

The L/C Agreement

In signing the acceptance agreement the importer accepts the credit as issued and guarantees to the bank, in consideration of its opening the credit as requested,

1. That he will provide the bank with funds before maturity of the acceptance, or,—in sight credits,—in time to meet the sight drafts.
2. That he will pay whatever commission is agreed upon and assume the cost of cable charges.
3. That he will not hold the bank responsible for the genuineness or validity of the documents presented under the credit, or for the quantity or quality of the merchandise.

Purchase Contract Distinct from L/C

A great number of misunderstandings arise from the fact that, under clause three abovementioned, a bank will accept drafts when accompanied by proper documents and insist upon the importer's receiving and paying for them even though it eventually develops that the quality of the merchandise is not as specified in the invoice. The importer, who is naturally put out, often vents his indignation, not on the shipper, who is properly to blame, but on the bank. **The letter of credit is entirely independent of the purchase contract.** It remains the duty of the buyer to satisfy himself as to the standing of his seller, since he buys his goods at his own risk.

Vice versa, when an exporter negotiates drafts under a credit opened in his favor, he is often annoyed with the bank for insisting on full compliance with all the technical details. The necessity for absolute observance of the terms of the credit is obvious from the fore-going paragraphs.

Waiver of Technicalities

When a credit specifies bills of lading to order of the bank, it does not permit of bills-of-lading to shipper's order and endorsed to the bank. When insurance policies are stipulated, insurance certificates are not in order. Steamer bills-of-lading are on-board-bills, or received-for-shipment bills, but not inland-through-bills. One hundred tons, 10% more or less, does not mean that 112 tons will be accepted, and so on. Where there is good reason to do so a bank may at its discretion waive a minor technicality, but it will only do this on the shipper's guarantee in writing to hold it harmless. More often, if the shipper cannot comply with some requirement of the credit, he will ask the bank to cable requesting an amendment.

Amendments

Amendments to irrevocable credits can only be made with the consent of both accreditor and accreditee. Revocable credits may be amended by the accreditor, provided the accreditee has not already negotiated.

Collection Instructions

Under export acceptance credits there is precisely the same need for accuracy in preparing instructions, although the number of points to be covered is not so great. Since the underlying collections are drafts drawn by the shipper on the purchaser, the matter of how they are drawn and what documents are required concerns these two parties alone. The shipper, however, must inform the bank whether the documents are to be released against acceptance or payment in part or whole. He must also instruct how payment is to be effected, whether by check or cable, and if by check, what checks will be acceptable.

Export Acceptance Agreement

By the terms of the export acceptance agreement he binds himself, as with an import credit, to provide cover and to pay commissions and costs; in addition he agrees to hold the bank harmless from the acts of its collecting agents except in cases of negligence on the part of these agents or of the bank itself in selecting them. If, for instance, a foreign correspondent becomes insolvent while funds arising out of collections are in its hands, the American bank is only liable for any eventual loss sustained by its customer, if it can be reasonably maintained that the American bank should have been aware of the situation, and was negligent in using the foreign bank as its agent.

* * * *

We have mentioned here only a few of the many possible causes of annoyance and misunderstanding, our purpose being not to provide a handbook of "Don'ts," but to point out the necessity for accuracy and complete co-operation on the part of both customer and bank. It is not overstating the case to say that punctiliousness in giving and carrying out instructions is the oil without which the motor knocks and the gears grind.

PART FOUR

The International Acceptance Bank, Inc.

BEFORE concluding our birds-eye consideration of the general principles of foreign trade financing, we shall devote a brief space to a glance at the particular services offered by a bank which was organized for the specific purpose of performing this function. We shall outline first the general organization of the bank and the various kinds of business for which it is equipped. Next we shall endeavor to show how this organization is adapted to the needs of American banks and commercial enterprises, and finally, how it is especially designed to serve the banks and commercial houses of foreign countries.

CHAPTER FIFTEEN

The Organization of the International Acceptance Bank

Organization and Capital

THE International Acceptance Bank, Incorporated, was organized in April, 1921, under the laws of the State of New York and under a special license from the Federal Reserve Board of the United States. It has an authorized capital, fully paid in, of $10,250,000, and a surplus, fully subscribed of $5,000,000. On December 31, 1921, it showed undivided profits of $82,000. On December 30, 1922, it showed undivided profits of $969,500.

Acceptance Limit

Since it does not take domestic deposits, it is permitted to accept up to a total amount equal to several times its capital and surplus.* On December 31, 1921, it had acceptances outstanding, of $11,000,000. On December 30, 1922, it had $28,800,000.

Officers and Directors

Inasmuch as a majority of the shareholders of the Bank are leading banks and private banking houses in the United States, Europe and Canada, the board comprises representatives,—in most cases the chief executives,—of those stock-holding institutions which are located within easy traveling distance of New York. The following are the officers and directors of the Bank.

* The Federal Reserve Board supervises acceptance corporations such as the I. A. B. and determines from time to time the limits up to which they may accept.

OFFICERS

F. ABBOT GOODHUE
President

L. NACHMANN
Vice-President

P. J. VOGEL
Vice-President

JAMES P. WARBURG
Vice-President and Secretary

FLETCHER L. GILL
Vice-President and Treasurer

JOHN E. SHEA
Auditor

Assistant Secretaries
A. BENJAMIN
H. B. KINGMAN
W. H. SCHUBART

Assistant Treasurers
JOHN P. COLLINS
L. D. PICKERING

E. GUGELMANN, *Mgr. Foreign Exchange Dept.*
H. E. BARKER, *Mgr. Commercial Credit Dept.*
H. J. ROGERS, *Mgr. Collection Dept.*
W. T. KELLY, *Mgr. Credit Information Dept.*

DIRECTORS

Chairman
PAUL M. WARBURG

Vice-Chairman
DANIEL G. WING
President First National Bank of Boston

NEWCOMB CARLTON
President Western Union Telegraph Co., New York

EMORY W. CLARK
President First National Bank in Detroit

WALTER E. FREW
President Corn Exchange Bank, New York

F. H. GOFF
President Cleveland Trust Company, Cleveland

F. ABBOT GOODHUE
President

ROBERT F. HERRICK
Herrick, Smith, Donald & Farley, Boston

L. NACHMANN
Vice-President

JOHN T. PRATT
Financier

LAWRENCE H. SHEARMAN
W. R. Grace & Co., New York

WILLIAM SKINNER
William Skinner & Sons, New York

H. C. SONNE
Huth & Co., New York

PHILIP STOCKTON
President Old Colony Trust Co., Boston

CHARLES A. STONE
President American International Corporation

HENRY TATNALL
Vice-President Pennsylvania Railroad Co.

FELIX M. WARBURG
Kuhn, Loeb & Co., New York

THOS. H. WEST, Jr.
President Rhode Island Hospital Trust Co., Providence

The Bank is organized to handle all kinds of financial transactions which arise out of the commerce between one nation and another, as well as to finance certain particular kinds of domestic business, which involve movements of merchandise.

Commercial Credit and Collection Departments

The **Commercial Credit and Collection Department** is prepared to open import letters of credit in all parts of the world, **either in dollars or in foreign currencies;** It is equipped to handle foreign collections and open **export** acceptance credits; to open **dollar exchange** credits where permitted; and in certain cases, it is prepared to open credits against **domestic** shipments or staple commodities in warehouse.

Foreign Exchange Department

The **Foreign Exchange Department** maintains its accounts in all the principal countries of the world, and is equipped with a cable relay station in London, as well as with private wire connections to Canada and thirty of the principal cities of the United States. It is therefore admirably equipped to execute cable transfers, to buy or sell checks in any of the foreign currencies, or to purchase long-dated foreign currency bills. This department does not issue drawing equipments, nor undertake to handle small remittances; it is organized primarily to do a wholesale business on a minimum margin of profit.

Securities Department

The **Securities Department** is equipped to buy or sell in all markets, or to obtain information concerning any domestic or foreign investments. In conjunction with affiliated interests the Bank is also prepared to negotiate new issues, domestic or foreign.

Information Department

The **Information Department** has extensive files on domestic and foreign concerns, and is always ready to procure any confidential information for clients of the bank.

Bullion Department

The **Bullion Department** deals extensively in gold and silver and is equipped to handle sales or purchases for the account of foreign and domestic customers.

These, in bare outline, are the departments of the Bank. The working staff of these departments is comparatively small and highly specialized.

CHAPTER SIXTEEN

Particular Facilities for Domestic Clients

Stockholders Instead of Branches

BY reason of its extensive foreign connections, the International Acceptance Bank is particularly adapted for handling the foreign business of domestic corporations.

Instead of establishing branches abroad, the policy of the International Acceptance Bank has been to obtain as stockholders some of the oldest and best banks and banking firms in Europe and Canada, and thus to secure the benefit of their support and co-operation through the creation of a community of interest. This plan not only avoids the expense, risk and responsibility of operating branches in distant countries, but opens to the Bank a wider and safer avenue to foreign fields than could be obtained in any other way. Furthermore it provides the great benefit of information and advice from these stockholding correspondents, which, in times as uncertain as the present, is invaluable, not only to the bank but to its customers and associates.

Foreign Bank Shareholders

The foreign stockholding corporations of the International Acceptance Bank have an aggregate capital and surplus in excess of $270,000,000 and resources of approximately $2,300,000,000. Some of the principal stockholders in various countries are the following:

ARGENTINE

The First National Bank of Boston, Buenos Aires

BELGIUM

Banque Centrale Anversoise, Antwerp

Banque de Bruxelles, Brussels

CANADA

Bank of Montreal, Montreal

With 246 branches in trade centers of Canada, Newfoundland, Mexico, Europe and the U. S.

DENMARK

R. Henriques, Jr., Copenhagen

FRANCE

Banque de Paris et des Pays Bas, Paris

With branches in Amsterdam, Brussels, Geneva and Rotterdam

GERMANY

M. M. Warburg & Company, Hamburg

GREAT BRITAIN

N. M. Rothschild & Sons, London

National Provincial & Union Bank of England, Ltd., London

With over 1,000 branches in all the leading commercial cities of the United Kingdom and with affiliated institutions having offices and branches in Belgium, France, Italy, Switzerland, Germany, India, and the Far East

NETHERLANDS

Hope & Company, Amsterdam

Nederlandsche Handel-Maatschappij, Amsterdam, The Hague, Rotterdam

Foreign branches in the following places:

Dutch East Indies: Batavia, Sourabaya, Samarang, Medan, Weltevreden, Bandoeng, Cheribon, Tegal, Pecalongan, Djokjakarta, Solo, Tjilatjap, Djember, Padang, Kota-Radja, Palembang, Bandjermasin, Pontianak, Mascassar.

Straits Settlements: Singapore, Penang.

British India: Rangoon, Calcutta, Bombay.

China: Hongkong, Shanghai.

Japan: Kobe.

Dutch Guiana: Surinam

NORWAY

Den norske Creditbank, Christiania.

SWEDEN

Skandinaviska Kreditaktiebolaget Gothenburg—Stockholm—Malmö

With 109 branches in Sweden

Svenska Handelsbanken, Stockholm, With 228 branches in Sweden

SWITZERLAND

Swiss Bank Corporation, Basle

With branches in London, Zurich, St. Gall, Geneva, Lausanne, La Chaux-de-Fonds, Neuchatel, Schaffhouse, Bienne, Chiasso, Herisau, Le Locle, Nyon, Aigle, Bischofszell, Morges, Rorschach, Vallorbe, Les Ponts, Rolle.

Credit Suisse, Zurich

With branches in Basle, Berne, Frauenfeld, Geneva, Glaris, Lausanne, Kreuzlingen, Lucerne, Lugano, Neuchatel, St. Gall, Horgen, Oerlikon, Romanshorn, Weinfelden.

Additional Correspondents

In addition to these stockholding banks which form the nucleus of the foreign connections of the International Acceptance Bank, Inc., other correspondents are located in all the principal cities of Europe, Central and South America, Australia and New Zealand, China, Japan, India, and Africa.

Special Advantages

The exceptional character of the facilities offered for opening import credits in dollars or foreign currencies, or for collecting drafts drawn on all parts of the world, is evident without further comment. Furthermore it will readily be seen that operations in foreign exchange in all countries are enormously facilitated by the intimate relations existing between the International Acceptance Bank and its foreign stockholders.

Similarly, the bank is provided with the means whereby it can not only obtain information in regard to investment securities, which are dealt in in various markets of the world, but also execute under most favorable circumstances orders to buy and sell such securities, which it may receive from its domestic customers.

The salient feature about this bank in so far as the domestic client is concerned, is that the client has at his disposal, not only the facilities of the bank itself, but of the leading banks in the foreign countries of the world.

* * * *

Treuhand Companies

The International Acceptance Bank acts as agent in obtaining for American banks and commercial houses the services of the **Deutsche Waren Treuhand A. G. of Hamburg,** and of the **Allgemeine Waren Treuhand A. G. of Vienna.**

These two companies were formed some time ago for the specific purpose of safeguarding credits extended by American enterprises to various concerns in Central Europe. They are equipped, not only to attend to the warehousing and insurance of goods,—as well as to handle collateral of all sorts as trustee,—but also to look after the preserving of liens on raw materials during the process of manufacture.

CHAPTER SEVENTEEN

Services to Foreign Customers

JUST as the International Acceptance Bank was organized to place at the disposal of its American customers the services of the leading foreign banks, so also it was designed to provide for its friends in foreign countries a means whereby they could avail themselves of the cumulative facilities of a group composed of dominant banks and private banking and commercial houses in this country. The combined capital and surplus of the American stock-holding corporations, exclusive of private firms, is approximately $276,000,000 and their total resources aggregate in excess of $2,200,000,000.

Network of Domestic Bank Stockholders

The following is a list of the principal stockholding banks and firms in the United States:

BIRMINGHAM, ALABAMA
First National Bank of Birmingham

BOSTON, MASSACHUSETTS
The First National Bank of Boston
Old Colony Trust Company

CHICAGO, ILLINOIS
The First National Bank of Chicago

CLEVELAND, OHIO
Central National Bank Savings & Trust Co.
The Cleveland Trust Company

DETROIT, MICHIGAN
First National Bank in Detroit

KANSAS CITY, MISSOURI
Fidelity National Bank & Trust Co.

LOS ANGELES, CALIFORNIA
The First National Bank of Los Angeles

MINNEAPOLIS, MINNESOTA
Northwestern National Bank

NEW YORK, NEW YORK
American International Corporation
Corn Exchange Bank
Huth & Company
Kuhn, Loeb & Company
The New York Trust Company

PHILADELPHIA, PENNSYLVANIA
Franklin National Bank

PORTLAND, OREGON
The First National Bank of Portland

PROVIDENCE, RHODE ISLAND
Rhode Island Hospital Trust Co.

SAN FRANCISCO, CALIFORNIA
Wells Fargo Nevada National Bank

SEATTLE, WASHINGTON
Seattle National Bank

ST. LOUIS, MISSOURI
First National Bank in St. Louis

YOUNGSTOWN, OHIO
The First National Bank

Private Wires

With the majority of these institutions, as well as with a large number of other correspondents in the United States and Canada, the International Acceptance Bank is connected by private telegraph or telephone wires, which is of particular value in foreign exchange dealings. Furthermore, a relay station is maintained in London for the particular service of European clients.

Service to Foreign Banks

The International Acceptance Bank makes a specialty of serving foreign banks in caring for their current business of all sorts in this country.

1. It will carry accounts current on its books and grant what facilities are needed in connection therewith.
2. It will make or receive payments in all parts of the country.
3. It will attend to collections and discount bills forwarded for acceptance.
4. It will execute orders in all foreign exchanges, valeur compensée.
5. It will grant reimbursement credit facilities up to a maximum tenor of six months.
6. It will make cash advances and extend mail credits.
7. It will accept drafts drawn upon it to create dollar exchange, wherever it is permitted.
8. It will execute purchases and sales of securities on any of the American stock exchanges.
9. It will buy or sell Bank or Trade Acceptances for investment under its guarantee.
10. It will attend to purchases or sales of gold and silver bullion.
11. It will provide information of all sorts, and particularly credit information.
12. It will act as intermediary in financial negotiations.

Service to Foreign Individuals and Corporations

The Bank is also glad to serve foreign corporations, firms, or individuals in much the same manner, and makes a specialty of safe-guarding the American holdings of such clients. Furthermore it is willing to assist the business man in foreign countries to establish suitable connections here, just as it serves the American enterprise to find its affiliations abroad.

INDEX

END OF
TITLE